

AR20



Annual Report 1973

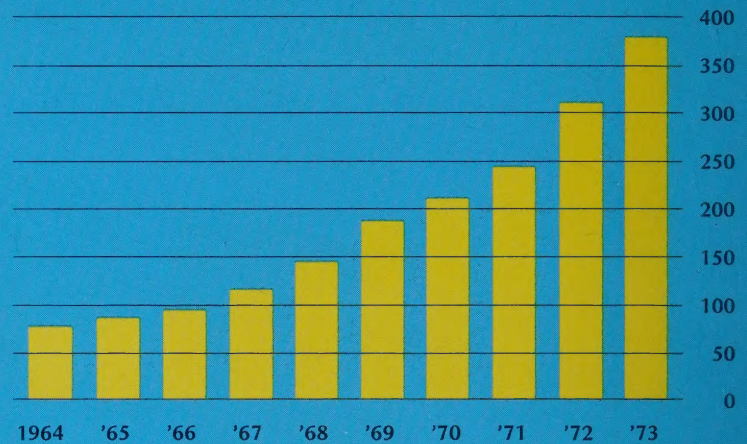
CANADIAN TIRE CORPORATION LIMITED



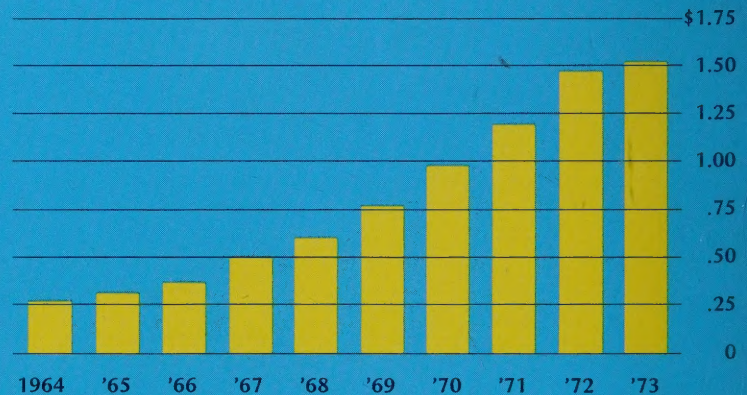


Canadian Tire Corporation, Limited
Home Office moved to 2180 Yonge Street,
Toronto, in August, 1973, taking occupancy of
the four floors indicated in colour above and an
additional floor in a similar, adjoining
building at 2200 Yonge.

GROSS OPERATING REVENUE (in millions of dollars)



NET INCOME PER SHARE



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FRONT COVER: View of the new Brandon, Manitoba, store—one of 14 retail facilities built or leased in Western Canada since 1966.



Mississauga Distribution Centre (see story on page 20).

Highlights

	1973	1972	Per cent Annual Change
Gross operating revenue	\$378,587,233	\$309,174,067	22.5%
Net income	\$ 16,410,204	\$ 16,100,108	1.9%
Per share*	\$ 1.51	\$ 1.48	2.0%
Cash flow	\$ 21,126,982	\$ 19,622,643	7.7%
Per share*	\$ 1.94	\$ 1.81	7.2%
Dividends paid	\$ 2,943,586	\$ 2,498,848	17.8%
Per share	27 cents	23 cents	17.4%
Shareholders' equity	\$114,466,164	\$ 98,481,979	16.2%
Per share*	\$ 10.49	\$ 9.06	15.9%
Working capital	\$ 33,706,903	\$ 40,082,535	— 15.9%
Capital expenditures	\$ 27,332,316	\$ 18,101,162	51.0%
Number of stores at year-end	283	269	5.2%
Number of shareholders	11,764	9,894	18.9%

*Combined Class A and common—based on weighted average number of shares outstanding during the year.



99.1% of our 11,764 shareholders reside in Canada and own 99.7% of the total shares outstanding.

Directors' report

IN 1973, CONSOLIDATED GROSS OPERATING REVENUE of the Company and its subsidiaries increased by 22.5% to \$378,587,000. However, as reported previously, net income after taxes remained relatively constant at \$16,410,000 or \$1.51 per share, compared with \$16,100,000 or \$1.48 per share in 1972.

To conform with revised reporting requirements issued by the Accounting Research Committee of The Canadian Institute of Chartered Accountants, these amounts now include the results of Canadian Tire Acceptance Limited on a consolidated basis. The 1972 figures and those contained in the 10-year comparative summary have been restated to reflect this method of presentation. Also included for 1973 are the results of Cantire Products Limited, a company established during the year to amalgamate three specialized manufacturing businesses which previously operated in conjunction with the Company. This consolidation has had no effect on earnings for the year and no material effect on the financial position. Also included in net income for both years were extraordinary gains on the sale of property, amounting to \$79,000 in 1973 (1 cent per share) and \$118,000 in 1972 (1 cent per share).

The increase in gross operating revenue reflected continuing strength in sales of Canadian Tire dealers to the public—an increase of 21.4% over the previous year—and very strong performances by Canadian Tire Acceptance Limited and the Company's gasoline marketing division during the latter part of 1973.

Earnings were adversely affected in 1973 by a number of unusual and significant factors. Costs associated with setting-up and phasing-in of the Company's new, highly-automated distribution centre and moving of the Home Office, and those expenses related to the dramatically increased capital expenditures program, all contributed to an increase in operating costs as a percentage of revenues.

The Company's policy is to expense, rather than capitalize, its internal development costs, realty taxes and interest incurred on construction in progress and land held for development. Stores involving a capital investment of some \$10 million were opened at various times during 1973, with the value at year-end of undeveloped properties and stores under construction approximating \$15 million. In addition, the Company's policy is to charge a full year's depreciation at the maximum



to the shareholders



J. D. Muncaster, *President*, and Alex E. Barron, *Chairman of the Board*.



rates allowable for tax purposes on all retail stores opened during the year and on construction in progress at year-end—such depreciation on new and non-productive assets amounting to \$730,000 in 1973. As a result of these policies, the increase in capital expenditures—from \$18 million in 1972 to \$27 million in 1973—resulted in substantially increased expenses.

DURING 1973, PRICES PAID to merchandise suppliers increased sharply. In more normal periods, the Company has been able to obtain price guarantees from most suppliers for the duration of the catalogue which we distribute to the public. Increasingly, during the latter part of 1973, this price protection was no longer available. Although the right has always been reserved to alter selling prices at any time, the Company

has been most reluctant to do so between catalogue issues and, consequently, suffered a decrease in achieved gross margin of almost 1% of revenues in 1973. With intense merchandise cost pressures continuing to be experienced in 1974, this pricing policy has been re-examined with the result that during the current highly-inflationary period, cost increases will generally be passed through as incurred.

Because of the reduced gross margin, increased operating costs occasioned by the non-recurring events outlined previously and an effective tax rate of 50.5% in 1973 (compared with 48.0% in 1972), earnings per share before gain on sale of property were held to \$1.50 in 1973 (\$1.47 in 1972), despite strong earnings performances from the Company's subsidiaries and its gasoline marketing division.



FOR THREE MONTHS now, the Company's new Mississauga Distribution Centre has been operating under the control of its integrated computer systems, has been on schedule and has achieved its operating objectives in terms of output and costs. This 11 million cubic-foot facility was designed to increase aggregate distribution capacity by approximately 40% —thus providing for the Company's anticipated growth requirements during 1974 and 1975.

In view of the now demonstrated superiority of these new merchandise-handling concepts (described in greater detail on pages 20 & 21 of this Report), the Company has decided to take further advantage of this distribution breakthrough by commencing construction of the next module, utilizing the technology perfected during 1973. This addition, to be completed in late 1975 at an anticipated capital cost of some \$12 million, will provide for our growth requirements in the years 1976 and 1977. With completion of this next phase, approximately 60% of the Company's distribution capacity will consist of highly-automated, low labour cost, computer-controlled facilities.

CAPITAL EXPENDITURES DURING 1973 amounted to \$27.3 million. Of this, some \$19.5 million was invested in land acquisition and store construction to provide expanded retail capacity, and \$5.0 million in additional distribution capacity, including both the completion of the Mississauga Distribution Centre and improvements to the Sheppard Avenue facility. The remaining \$2.8 million was represented by additional gasoline marketing facilities, further additions to our transportation fleet, and leasehold improvements and equipment in connection with the relocation of the Company's Home Office.

To fund these capital expenditures and those contemplated for 1974 and 1975, the Company has arranged for the sale at par of \$30 million principal amount of 9¼% Sinking Fund Debentures, Series B, for estimated net proceeds of \$29,775,000. As a result, the Company's working capital position will be improved and bank borrowings will be limited to those required to finance peak seasonal needs for inventories and receivables.

1973 was another year of rapid expansion for Canadian Tire Acceptance Limited. Gross operating revenue increased by 54.0% to \$5.1 million. Despite the costs associated with such rapid growth, sharply higher interest expenses and an

On behalf of the Board,

Al S. Barry
Chairman of the Board



effective income tax rate of 51.4% (48.0% in 1972), net income for the year increased by 34.6% to \$351,000.

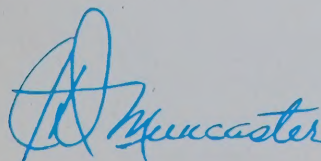
Early in 1974 on an experimental basis, the Company decided to open in a joint venture with The Larkin Lumber Company Limited—a subsidiary of Canadian Corporate Management Company Limited and operators of Cashway lumber outlets—two lumber and building supply operations adjacent to Canadian Tire Associate Stores. While the immediate performance of these outlets will not materially affect the earnings of the Company, the longer-range potential in serving the growing home-improvement market effectively is substantial.

PROFIT-SHARING AWARDS and the Company's contribution to the employee share purchase plan amounted to \$2.1 million for 1973. This increase of some \$600,000 occurred despite a reduction in the profit-sharing award relative to the employee's earnings, largely because of increased employee participation in the share purchase plan and increased numbers of employees, including those of Cantire Products Limited for the first time. The attitude of participation and involvement fostered by this profit-sharing and share ownership philosophy remains one of the Company's most valuable assets.

Without the dedication and commitment of our employee shareholders and our associate dealers, the difficulties and dislocations experienced during the year might well have resulted in a slowing of the Company's momentum. Instead, it is anticipated that 1973 will come to be viewed as a period in which revenue growth targets were achieved but in which profitability was only temporarily restrained.

ALTHOUGH HIGH LEVELS of inflation may result in some reallocation of consumer spending, we are convinced that this process is unlikely to adversely affect the demand for Canadian Tire products. Rather, with high levels of disposable income, increased capacity (both in terms of distribution and retailing facilities) and a high level of optimism in our dealer organization, we expect sales growth again to exceed 20% in 1974. For January and February, dealer sales to the public increased by 22.4% over 1973. The real challenges of 1974 will be those of obtaining adequate supplies, at reasonable prices, of the many products which are in short supply and of dealing with the impact of severe inflation, both in terms of merchandise prices and operating costs. We believe that Canadian Tire is prepared to cope effectively with these challenges

Dated April 10, 1974.



President and Chief Executive Officer

BOARD OF DIRECTORS

A. E. BARRON, *Chairman of the Board*, Canadian Tire Corporation, Limited, Toronto, Canada
President, Canadian General Investments, Limited

G. A. BEAL, *President*, George A. Beal Limited, Brantford, Canada—*A Canadian Tire Associate Store Owner*

A. D. BILLES, *President*, Bilco Tire Limited, Toronto, Canada—*A Canadian Tire Associate Store Owner*

A. J. BILLES, *Past-President*, Canadian Tire Corporation, Limited, Toronto, Canada

A. W. BILLES, *President*, 839 Yonge Main Store Limited, Toronto, Canada—*A Canadian Tire Associate Store Owner*

D. G. BILLES, *President*, Performance Engineering Limited, Thornhill, Canada

R. J. HOBBS, *Vice-President*, Canadian Tire Corporation, Limited, Toronto, Canada

R. LAW, Q.C., *Secretary*, Canadian Tire Corporation, Limited, Toronto, Canada
Partner, Blackwell, Law, Treadgold & Armstrong, *Barristers and Solicitors*

J. D. MUNCASTER, *President and Chief Executive Officer*, Canadian Tire Corporation, Limited, Toronto, Canada

A. L. SHERRING, C.A., *Executive*, National Trust Company, Limited, Toronto, Canada

OFFICERS

A. E. BARRON, *Chairman of the Board*

J. D. MUNCASTER, *President*

R. J. HOBBS, *Vice-President*

W. R. DAWSON, *Vice-President, Marketing*

J. W. KRON, *Vice-President, Distribution*

R. LAW, *Secretary*

F. Y. SASAKI, *Treasurer*

REGISTRAR & TRANSFER AGENT

National Trust Company, Limited, Toronto, Montreal and Calgary

SOLICITORS

Blackwell, Law, Treadgold & Armstrong

BANKERS

Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Chicago City Bank and Trust Company

AUDITORS

Deloitte, Haskins & Sells, *Chartered Accountants*

Consolidated Statement of Income and Retained Earnings

for the Year Ended December 31, 1973
(with 1972 figures for comparison)

	1973	1972
GROSS OPERATING REVENUE	\$378,587,233	\$309,174,067
OPERATING EXPENSES:		
Cost of merchandise sold and all expenses except for the undernoted items	338,735,401	273,825,065
Depreciation and amortization	4,514,058	3,353,941
Employee deferred profit sharing and share purchase plans	2,088,635	1,482,671
Interest on long-term debt	1,416,968	1,386,549
Total operating expenses	346,755,062	280,048,226
	31,832,171	29,125,841
Interest income [Note 7]	1,188,122	1,619,882
Income before income taxes	33,020,293	30,745,723
Provision for income taxes	16,688,911	14,763,389
Income from operations	16,331,382	15,982,334
Extraordinary gain on sale of property	78,822	117,774
NET INCOME FOR THE YEAR	16,410,204	16,100,108
RETAINED EARNINGS AT BEGINNING OF THE YEAR	72,908,477	59,307,217
	89,318,681	75,407,325
DEDUCT:		
Dividends paid:		
Class A shares	2,012,086	1,705,348
Common shares	931,500	793,500
	2,943,586	2,498,848
RETAINED EARNINGS AT END OF THE YEAR	\$ 86,375,095	\$ 72,908,477
Earnings per share before extraordinary gain	\$ 1.50	\$ 1.47
Earnings per share relating to gain on sale of property	0.01	0.01
EARNINGS PER SHARE [Note 8]	\$ 1.51	\$ 1.48

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

Consolidated Statement of Source and Application of Funds

for the Year ended December 31, 1973
(with 1972 figures for comparison)

	1973	1972
FUNDS PROVIDED:		
Income from operations	\$16,331,382	\$15,982,334
Depreciation and amortization	4,514,058	3,353,941
Amortization of debenture discount and issue expense	21,245	21,245
Deferred income tax charge	181,475	147,349
Total funds provided from operations	21,048,160	19,504,869
Issue of Class A shares	2,517,567	1,106,772
Decrease in mortgages receivable	—	252,216
Increase in mortgages payable	405,049	191,698
Decrease in long-term portion of income debentures	—	3,292,035
Disposals of property and equipment	388,270	365,942
Total funds provided	24,359,046	24,713,532
FUNDS APPLIED:		
Additions to property and equipment:		
Land	5,569,347	4,312,248
Buildings	16,284,863	10,168,351
Fixtures and equipment	3,858,574	2,387,356
Automotive equipment	993,389	926,905
Leasehold improvements	626,143	306,302
	27,332,316	18,101,162
Increase in long-term portion of income debentures	315,993	—
Increase in mortgages receivable	142,783	—
Dividends paid:		
Class A shares	2,012,086	1,705,348
Common shares	931,500	793,500
Total funds applied	30,734,678	20,600,010
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	(6,375,632)	4,113,522
Working capital at beginning of the year	40,082,535	35,969,013
WORKING CAPITAL AT END OF THE YEAR	\$33,706,903	\$40,082,535

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.

Consolidated Balance Sheet

ASSETS	1973	1972
CURRENT ASSETS:		
Cash and bank deposit receipts	\$ 791,825	\$ 6,752,078
Short-term notes	—	7,195,320
Accounts and loans receivable	37,243,061	30,247,268
Merchandise inventories [Note 2]	51,479,901	39,642,789
Income debentures of Canadian Tire dealers — amounts due within one year	1,020,993	1,054,719
	<u>90,535,780</u>	<u>84,892,174</u>
Acceptance company:		
Charge account receivables	22,867,160	13,522,028
Other	99,553	25,810
Total current assets	<u>113,502,493</u>	<u>98,440,012</u>
INVESTMENTS:		
Income debentures of Canadian Tire dealers — less amounts due within one year — at cost	<u>3,714,819</u>	<u>3,398,826</u>
PROPERTY AND EQUIPMENT — at cost [Note 3]:		
Land	25,907,728	20,462,695
Buildings	71,945,295	55,702,454
Fixtures and equipment	12,910,597	9,007,474
Automotive equipment	3,340,533	2,402,521
Leasehold improvements	2,051,373	1,562,359
	<u>116,155,526</u>	<u>89,137,503</u>
Less accumulated depreciation and amortization	23,753,373	19,244,160
Net property and equipment	<u>92,402,153</u>	<u>69,893,343</u>
OTHER ASSETS:		
Mortgages receivable	292,651	149,868
Deferred income tax charge	340,828	522,303
Debenture discount and issue expense — less accumulated amortization of \$54,883 [Note 4]	370,009	391,254
Total other assets	<u>1,003,488</u>	<u>1,063,425</u>
TOTAL	<u><u>\$210,622,953</u></u>	<u><u>\$172,795,606</u></u>

The accompanying notes, on pages 10 & 11, are an integral part of these financial statements.



at December 31, 1973 (with 1972 figures for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY	1973	1972
CURRENT LIABILITIES:		
Accounts payable	\$ 31,609,471	\$ 23,355,321
Accrued liabilities and coupons outstanding	22,626,974	19,875,070
Income taxes payable	2,183,809	2,210,494
Short-term promissory notes	2,228,500	—
Loans payable to directors and shareholders	1,159,892	1,033,010
Mortgages payable — amounts due within one year	330,986	305,516
	<u>60,139,632</u>	<u>46,779,411</u>
Acceptance company:		
Bank indebtedness	1,019,000	766,365
Short-term promissory notes	15,280,000	9,600,000
Accounts payable	3,356,958	1,211,701
Total current liabilities	<u>79,795,590</u>	<u>58,357,477</u>
LONG-TERM DEBT [Note 4] :		
Mortgages payable — less amounts due within one year	1,361,199	956,150
8½% Sinking Fund Debentures, Series A	15,000,000	15,000,000
Total long-term debt	<u>16,361,199</u>	<u>15,956,150</u>
SHAREHOLDERS' EQUITY:		
Capital stock [Notes 5 and 6] :		
Authorized:		
15,000,000 Class A non-voting shares without par value		
3,450,300 common shares without par value		
Issued and fully paid:		
7,462,202 Class A shares (1972 — 7,420,688 shares)	27,198,881	24,681,314
3,450,000 common shares	892,188	892,188
	<u>28,091,069</u>	<u>25,573,502</u>
Retained earnings	86,375,095	72,908,477
Total shareholders' equity	<u>114,466,164</u>	<u>98,481,979</u>
TOTAL	<u><u>\$210,622,953</u></u>	<u><u>\$172,795,606</u></u>

Approved by the Board: J. D. Muncaster, Director; A. E. Barron, Director.



notes to the consolidated

1 Principles of Consolidation

The accompanying financial statements include the accounts of Canadian Tire Corporation, Limited and its wholly-owned subsidiaries, Canadian Tire Acceptance Limited and Cantire Products Limited.

Canadian Tire Acceptance Limited was not consolidated in the financial statements in prior years but was accounted for on the equity method, under which the company's equity in the net earnings of this subsidiary was included in the statement of income and retained earnings. The subsidiary has been consolidated in 1973 to conform with revised reporting requirements issued by the Accounting Research Committee of The Canadian Institute of Chartered Accountants. These requirements became effective in 1973. The 1972 figures have been restated to reflect this method of presentation.

Cantire Products Limited was established in 1973 to amalgamate three specialized manufacturing businesses which previously operated in conjunction with Canadian Tire Corporation, Limited. The consolidation of Cantire Products Limited in the financial statements for 1973 has had no effect on earnings for the year and no material effect on the financial position.

2 Inventories

Merchandise inventories have been valued at the lower of cost or estimated net realizable value less normal profit margin.

3 Property and Equipment

It is the companies' policy to provide for depreciation under the declining-balance method at various annual rates (buildings—5% and 10%, fixtures and equipment—20%, and automotive equipment—30%) and to provide for amortization of leasehold improvements on a straight-line basis over the terms of the respective leases. As in previous years, a full year's depreciation is provided on all retail stores opened during the year and on construction in progress at the year end. Internal development costs, interest and realty taxes pertaining to construction in progress and land held for development are expensed as incurred.

As at December 31, 1973, the company had commitments for acquisition of properties and expansion of retail store facilities amounting to \$11,668,000. Subsequently, the company commenced the construction of additional warehouse facilities to be completed in 1975 at an estimated cost of \$11,850,000.

4 Long-term Debt

Mortgages Payable: Mortgages have been assumed on the acquisition of thirteen properties. These mortgages mature at various times between 1974 and 1987, and bear interest at various rates up to 9%.

Sinking Fund Debentures: The 8½% Sinking Fund Debentures, Series A (unsecured) mature on June 1, 1991, and are redeemable, in whole or in part, at a premium of 8% to January 14, 1974, decreasing ½% annually thereafter. Under the Trust Indenture, a sinking fund must be provided to redeem \$500,000 of Series A Debentures at par in each of the years 1977 to 1991 inclusive. The Trust Indenture imposes certain restrictions on the company. To December 31, 1973, all of the conditions of the Trust Indenture have been met.

The debenture discount and issue expense is being amortized on a straight-line basis over the term of the debentures.

5 Capital Stock

Issue of Class A shares: During 1973, the company issued 41,514 Class A shares for cash in the total amount of \$2,517,567. All of these shares were issued to, or for the benefit of, the employees and officers of the company, the employees of the subsidiaries, and the employees of authorized dealers.

Conditions of Class A shares: The conditions attached to the Class A shares prohibit the issue of Class A shares unless either:

- (a) such shares are being issued to, or for the benefit of, employees of the company, or employees of any subsidiary, or authorized dealers, or the employees of authorized dealers, pursuant to a scheme or plan in existence at such time, or
- (b) the authorization of the holders of Class A shares shall first have been obtained.

The holders of Class A shares are entitled to receive a preferential cumulative dividend at the rate of 4 cents per share per annum and, after payment of a dividend on each of the common shares at a similar rate, are entitled to participate, pro rata, in further dividends declared and paid in each year.

Share options: Under the share option arrangement (see Note 6), certain senior officers, engaged directly in the management of the company, have been granted options to purchase Class A shares of the company. The options are exercisable at any time during a ten-year period from the date granted as follows:

Financial statements

Date Granted	Expiry Date	Price	Number of shares
February 27, 1970	February 28, 1980	\$20.287	17,259
February 26, 1971	February 26, 1981	24.975	25,695
February 29, 1972	February 28, 1982	35.325	23,677
February 28, 1973	February 28, 1983	54.900	17,656
February 28, 1974	February 28, 1984	40.950	20,050

6 Remuneration (Directors and Senior Officers)

The aggregate direct remuneration paid, or payable, by the company to the directors and senior officers of the company, as a group, during the fiscal year ended December 31, 1973 was \$350,900 (1972 — \$343,753). In addition, with respect to the fiscal year ended December 31, 1973, pursuant to a share purchase arrangement and a share option arrangement authorized by resolution of the directors, the company:

- (a) paid to certain senior officers, engaged directly in the management of the company, amounts calculated by reference to the earnings of the company for such fiscal year which, after provision for personal income tax, provided sums sufficient in the aggregate to pay the subscription price (\$222,586) of 4,892 Class A shares of the company required by this arrangement to be subscribed for by such senior officers, at the market value thereof as at February 28, 1974, namely \$45.50 per share, and
- (b) granted to certain senior officers, engaged directly in the management of the company, options to purchase 20,050 Class A shares of the company at a price of \$40.95 per share, being 90% of the market value thereof as at February 28, 1974, such options to be exercisable at any time up to February 28, 1984, at which time they expire.

It is presently proposed that the share purchase arrangement and share option arrangement will be continued in the future, and may be extended to certain other senior officers of the company from time to time, engaged or to be engaged, directly in the management of the company. Also with respect to the fiscal year ended December 31, 1973, the company paid to the Trustees of the Canadian Tire Deferred Profit Sharing Plan for the benefit of senior officers, amounts determined on the same basis as for other employees of the company.

7 Interest Income

Interest income is comprised of the following:

	1973	1972
Income debentures	\$ 212,744	\$ 368,996
Short-term investments and bank deposit receipts	186,447	805,739
Other	788,931	445,147
	<u>\$1,188,122</u>	<u>\$1,619,882</u>

Interest earned on charge account receivables of Canadian Tire Acceptance Limited is included in gross operating revenue in the consolidated statement of income and retained earnings.

8 Earnings Per Share

The earnings per share figures are calculated using the weighted average number of shares outstanding during the year. The exercise of the share options referred to in Note 5 would have no material effect on the reported earnings per share.

9 Leases

As at December 31, 1973, the companies are committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) of properties under 39 leases with termination dates between 1974 and 2006. The minimum annual payments required in each of the next five years are as follows:

Year—	1974	Minimum Annual Rentals—	\$1,857,000
	1975		1,838,000
	1976		1,808,000
	1977		1,794,000
	1978		1,624,000

10 Subsequent Event

Pursuant to an agency agreement dated March 12, 1974, the company has arranged for the sale, at par, of \$30,000,000 principal amount of 9¼% Sinking Fund Debentures, Series B, for estimated net proceeds of \$29,775,000.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Canadian Tire Corporation Limited as at December 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, as restated to consolidate the accounts of Canadian Tire Acceptance Limited (Note 1).

Toronto, Canada
March 15, 1974

Deloitte, Haskins & Sells
Chartered Accountants

Canadian Tire Acceptance Limited was not consolidated in the financial statements in prior years but was accounted for on the equity method. The subsidiary has been consolidated in 1973 to conform with revised reporting requirements issued by the Accounting Research Committee of The Canadian Institute of Chartered Accountants. The figures for the years 1964 to 1972 inclusive have been restated to reflect this method of presentation.



10-year

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INCOME STATISTICS

Gross operating revenue	\$ 378,587	309,174	246,758
<i>Per cent annual change</i>	22.5%	25.3%	16.2%
Income before taxes	\$ 33,020	30,745	25,531
<i>Per cent of gross operating revenue</i>	8.7%	9.9%	10.3%
Income taxes	\$ 16,689	14,763	12,818
Net income before extraordinary gain	\$ 16,331	15,982	12,713
<i>Per cent annual change</i>	2.2%	25.7%	26.4%
Net income including extraordinary gain	\$ 16,410	16,100	12,955
Earnings per share before extraordinary gain*	\$ 1.50	1.47	1.18
Earnings per share including extraordinary gain*	\$ 1.51	1.48	1.20
Provision for depreciation	\$ 4,514	3,354	2,623
Cash flow	\$ 21,127	19,623	15,451
<i>Per share*</i>	\$ 1.94	1.81	1.43
Dividends paid	\$ 2,944	2,499	2,166

BALANCE SHEET STATISTICS

Working capital	\$ 33,707	40,083	35,969
Capital expenditures	\$ 27,332	18,101	10,678
Fixed assets — net	\$ 92,402	69,893	55,394
Shareholders' equity	\$ 114,466	98,482	83,774
<i>Per share</i>	\$ 10.49	9.06	7.74
<i>Per cent return on shareholders' equity</i>	14.3%	16.3%	15.5%

OTHER STATISTICS

Number of shareholders — Class A	10,250	8,626	7,064
— Common	1,514	1,268	1,188
Number of Associate Stores	283	269	260
Number of gasoline stations	52	49	45

*Based on the weighted average number of shares outstanding during the year and adjusted for a 5-for-1 split of July 12, 1966

comparative summary

Dollar amounts are expressed in thousands
(except per share figures)

1970	1969	1968	1967	1966	1965	1964
212,405 17.6%	180,684 25.6%	143,887 24.7%	115,352 18.0%	97,716 20.3%	81,233 12.7%	72,066 -1.7%
21,172 10.0%	16,349 9.0%	12,687 8.8%	10,017 8.7%	7,542 7.7%	5,869 7.2%	5,158 7.2%
11,114	8,615	6,679	5,110	3,891	3,035	2,660
10,058 30.0%	7,734 28.7%	6,008 22.0%	4,923 34.7%	3,655 29.0%	2,834 13.5%	2,498 11.8%
10,448	7,852	6,008	4,926	3,681	2,891	2,514
.95	.75	.60	.50	.38	.29	.26
.98	.76	.60	.50	.38	.30	.26
2,282	1,892	1,355	1,053	883	852	844
12,580 1.18	9,689 .94	7,385 .74	5,964 .60	4,659 .48	3,602 .37	3,389 .35
1,928	1,170	899	761	584	497	452
14,911	11,163	12,867	7,217	6,186	7,580	6,365
12,608	10,064	6,946	4,663	3,955	1,715	1,129
47,742	37,506	29,602	24,011	20,458	17,387	16,523
71,489 6.72	53,144 5.15	45,622 4.57	34,143 3.44	28,683 2.95	24,903 2.57	22,508 2.33
14.6%	14.8%	13.2%	14.4%	12.8%	11.6%	11.2%
5,223 1,047	4,021 947	3,274 865	2,229 782	1,814 715	1,644 662	1,665 724
254	245	234	226	225	224	225
40	32	29	27	26	26	26

and a 3-for-1 split of May 13, 1970.

Statement of Income and Retained Earnings

for the Year ended December 31, 1973
(with 1972 figures for comparison)

	1973	1972
GROSS OPERATING REVENUE [Note 4]	\$5,092,488	\$3,304,534
Operating expenses:		
Interest on borrowed funds	926,729	409,907
Provision for credit losses	781,109	752,891
Other	2,662,425	1,640,047
Total operating expenses	<u>4,370,263</u>	<u>2,802,845</u>
Income before income taxes	722,225	501,689
Provision for income taxes	<u>371,174</u>	<u>241,032</u>
NET INCOME FOR THE YEAR	351,051	260,657
Retained earnings at beginning of the year	755,482	494,825
RETAINED EARNINGS AT END OF THE YEAR	<u>\$1,106,533</u>	<u>\$ 755,482</u>

The accompanying notes, on page 15, are an integral part of these financial statements.

CANADIAN TIRE ACCEPTANCE LIMITED

BOARD OF DIRECTORS

A. E. BARRON
R. J. HOBBS
R. LAW
J. D. MUNCASTER
B. R. WILSON

OFFICERS

B. R. WILSON, President
J. D. MUNCASTER, Vice-President
R. J. HOBBS, Vice-President
R. LAW, Secretary
F. Y. SASAKI, Treasurer

Auditors' Report to the Shareholders

We have examined the balance sheet of Canadian Tire Acceptance Limited as at December 31, 1973 and the statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 15, 1974

Deloitte, Haskins & Sells
Chartered Accountants

Statement of Source and Application of Funds

for the Year ended December 31, 1973
(with 1972 figures for comparison)

	1973	1972
FUNDS PROVIDED:		
Net income for the year	\$ 351,051	\$ 260,657
Depreciation and amortization	60,017	44,869
Funds provided from operations	411,068	305,526
Issue of preference shares	1,000,000	—
Total funds provided	1,411,068	305,526
FUNDS APPLIED:		
Additions to:		
Office furniture and equipment	80,666	47,379
Leasehold improvements	16,162	60,691
Motor vehicle	—	3,689
Total funds applied	96,828	111,759
INCREASE IN WORKING CAPITAL FOR THE YEAR	1,314,240	193,767
Working capital at beginning of the year	1,898,473	1,704,706
WORKING CAPITAL AT END OF THE YEAR	\$3,212,713	\$1,898,473

The notes below are an integral part of these financial statements.

notes to the financial statements

1 Depreciation and Amortization Policy

It is the company's policy to provide for depreciation under the declining-balance method at annual rates of 20% for office furniture and equipment and 30% for the motor vehicle and to provide for amortization of leasehold improvements on a straight-line basis over a period of five years.

2 Short-term Promissory Notes and Bank Indebtedness

The short-term promissory notes of the company are unconditionally guaranteed by its parent company, Canadian Tire Corporation, Limited. The parent company has available bank standby credit to cover any obligation which may arise under its guarantee of authorized notes outstanding from time to time. In addition, the parent company has guaranteed the bank indebtedness amounting to \$1,019,000.

3 Capital Stock

Under Articles of Amendment, dated October 24, 1973, the company increased its authorized 5% non-cumulative preference shares from 200,000 of a par value of \$10 each to 500,000 of a par value of \$10 each. During the year, the com-

pany also issued for cash to its parent company, Canadian Tire Corporation, Limited, 100,000 preference shares at the price of \$10 per share.

4 Revenue

Discounts on charge account receivables purchased from dealers are taken into revenue at the time the receivables are purchased. Customer accounts are maintained on a cycle-billing basis, and service charges are accrued each month on balances outstanding at the close of each cycle.

5 Lease

The company has a maximum commitment of \$36,000 per annum (exclusive of taxes, insurance, and other occupancy charges) for the rental of office space under a lease which terminates April 30, 1976 with option to renew for a further three years.

6 Remuneration (Directors and Senior Officers)

The total remuneration of directors and senior officers, as defined in The Business Corporations Act, Ontario, was \$154,969 in 1973 (1972 — \$118,075).

CANADIAN TIRE ACCEPTANCE LIMITED

Incorporated under the Laws of the Province of Ontario

Balance Sheet as at December 31, 1973 (with 1972 figures for comparison)

ASSETS	1973	1972
CURRENT ASSETS:		
Cash	\$ 140	\$ 140
Accounts receivable	6,972	8,112
Charge account receivables (less allowance for credit losses, 1973 — \$570,024; 1972 — \$534,639)	22,867,160	13,522,028
Prepaid expenses	92,441	17,558
Total current assets	22,966,713	13,547,838
FIXED ASSETS — at cost:		
Office furniture and equipment	229,705	149,039
Leasehold improvements	137,020	120,858
Motor vehicle	3,689	3,689
	370,414	273,586
Less accumulated depreciation and amortization [Note 1]	176,594	116,577
Net fixed assets	193,820	157,009
TOTAL	\$23,160,533	\$13,704,847

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Bank indebtedness [Note 2]	\$ 1,019,000	\$ 766,365
Accounts payable	3,234,053	1,167,484
Income taxes payable	122,905	44,217
Short-term promissory notes [Note 2]	15,280,000	9,600,000
Due to parent company	98,042	71,299
Total current liabilities	19,754,000	11,649,365

SHAREHOLDERS' EQUITY:

Capital stock [Note 3]:

Authorized:

500,000 5% non-cumulative, preference shares of a par value of \$10 each, redeemable at amount paid thereon
200,000 common shares of no par value

Issued and fully paid:

220,000 preference shares (1972 — 120,000)	2,200,000	1,200,000
100,000 common shares	100,000	100,000
	2,300,000	1,300,000
Retained earnings	1,106,533	755,482
Total shareholders' equity	3,406,533	2,055,482
TOTAL	\$23,160,533	\$13,704,847

Approved by the Board: B. R. Wilson, Director; J. D. Muncaster, Director.
The accompanying notes, on page 15, are an integral part of these financial statements.

"Total marketing" concept gains new ground, new strength in 1973



Earnings re-invested in physical expansion were reflected in every sector of Canadian Tire as the year 1973 ended. Our retail, distribution and long-distance hauling operations experienced dramatic growth as capital expenditures were translated into new, enlarged or improved facilities. Funds applied in 1973, to increase our overall marketing capacity, amounted to \$19.5 million for store construction and land acquisition; \$5 million for distribution expansion (see page 20); \$1 million for additions to our truck fleet, and approximately \$800,000 for relocating our administrative operations at 2180 Yonge Street from the 837 Yonge address of the past 36 years. The larger, more efficient Home Office facilities have built-in options to acquire additional space in future for our growing administrative workload. Our continuing retail expansion program—24 new stores in all were built or leased by year-end—was again directed at both developing new markets and replacing, expanding or modifying existing retail premises in localities where consumer preference for our products and services has been



St. John's (Newfoundland) store is the largest of 10 replacement facilities built in 1973.

Lachine (P.Q.) store and Toronto-Danforth Ave. store, shown on page 2, were built in new market areas.



14 new locations added within year, increasing store total to 283

demonstrated. Of the new stores opened, 14 are in markets new to Canadian Tire, while 10 replaced existing buildings to provide larger, more modern facilities for the market.

Canadian Tire stores built, or leased, in new markets during the year include Amherstburg, Bells Corners, Deep River, Kitchener East, Stouffville and Toronto (Danforth Avenue) in Ontario; Montmagny, P.Q. and three outlets in suburban Montreal (Beaconsfield, L'Acadie and Lachine); Brandon, Manitoba; and Estevan, Regina and Yorkton in Saskatchewan.

The 10 stores which were relocated in "replacement" facilities are Bancroft, Kincardine, New Liskeard, Norwich, Prescott, Trenton and Woodstock, Ontario; St-Hyacinthe, Quebec; St. John's, Newfoundland, and Truro, Nova Scotia.

An additional 17 projects were sufficiently advanced for opening by mid-year of 1974. In general, store "image" has been improved with subtle changes in decor, fixturing and lighting. Exteriors of smaller, older stores have been upgraded with new signage.

Canadian Tire's well-established reputation as a "stand alone" retailer, combined with more recent successes as traffic-builders in shopping centre locations, has strengthened our negotiating position when leasing the latter premises. Five new store facilities—four in Quebec and one in Ontario—were located in shopping plazas in 1973.

Major additions or renovations were completed on 13 stores during the year. The largest of these projects—in Ville La Salle—tripled the size of the Canadian Tire store on the existing site. Originally built in 1967, the suburban Montreal location exemplifies the company's "expansion allowance" and land-banking policy when a property is first developed. Several recent innovations further this forward-looking practice of economical land usage at the outset of construction.

The present trend to more compact, two-storey retail facilities provides for more efficient utilisation of land, particularly in major market areas where property values are extremely high. Current building designs allow for later

expansion at relatively low cost. Storage and receiving areas in all of our new store buildings have increased in proportionate size so as to accommodate either vertical or lateral extensions to the original structure when the need arises.

The implementation of an electronic ordering system in all Associate Stores, a project begun early in 1973, was completed by year-end. Our dealers can now transmit their merchandise orders directly to Home Office's central computer system in Toronto via telephone line, connected to an electronic apparatus similar to a cassette tape recorder. Whereas the previous ordering procedure—sending marked cards by mail—took several days, the present method is completed in seconds. Electronic ordering is an initial step toward adapting other sophisticated equipment to in-store operations. Mini-computers and electronic cash registers are being tested by several of our larger stores and experiments are now underway on in-store computerized order control.

Our broadening application of time-saving electronic equipment—co-ordinated with our central computer system and distribution facilities—will serve to bring inventory and customer even closer together, while increasing productivity at both ends of our distribution "pipeline."

182 mobile units added to truck fleet ... road-mileage record set

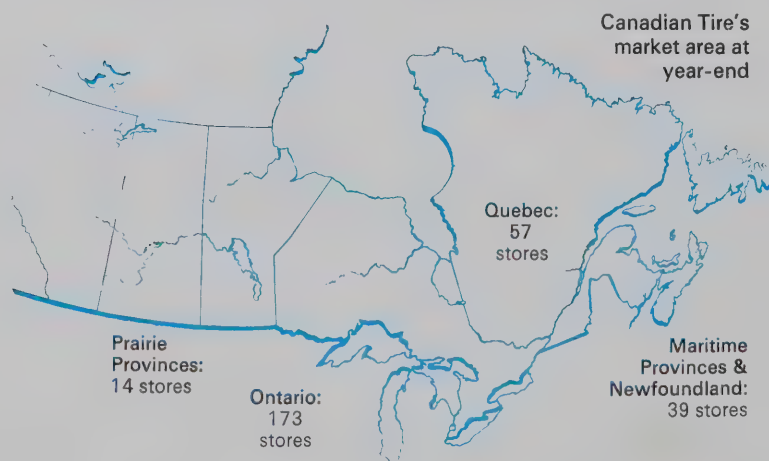
Canadian Tire's tractor-trailer fleet was increased from 269 to 451 mobile units over the year. From 55 to 60 percent of dealer merchandise is shipped via our own trucks—the remainder by contract trucker or railway "piggyback."

The fleet's normal field of operation (Ontario, Quebec and the American mid-west where some of our suppliers are located) was extended to the Maritime provinces during the railway workers' slowdown this summer. For the duration of the railways' rolling-stock shortage, we diverted vehicles to supply affected stores in the eastern seaboard market. A road record of 4.5 million miles was rolled up by year-end.

Canadian Tire's ability to provide emergency, trans-Canada shipping facilities at any time reveals the advantage gained in 1967 when we integrated hauling into our overall operations—enroute to a "total distribution" concept.

Cantire Products Limited was established in 1973 to amalgamate three specialized manufacturing businesses which previously operated in conjunction with Canadian Tire Corporation, Limited. The new subsidiary will continue to supply remanufactured auto-electrical parts, carburetors, fuel pumps, water pumps and brake linings to our Associate Stores, their service centres and other automotive outlets. "Cantire"—one of Canada's major suppliers in its field—occupies a 63,000-square-foot facility at 35 Fieldway Road, Toronto, and an additional 32,000 square feet in two other buildings. With current shortages of raw materials, reclaiming industries have very encouraging prospects for the future.

Our first foreign buying office was opened in Tokyo, Japan, as the year drew to a close. Operating as a branch of our Purchasing Division, the company's Far East Buying Office will cover the markets in Japan, China, Taiwan, Hong Kong and Singapore. This exposure in far-eastern areas will enable Canadian Tire to buy sporting goods, hardware and some automotive lines on an even more competitive basis.





Two-storey Woodstock (Ontario) store building conserves land for present parking or future expansion.



Our truck fleet now includes 451 mobile units.



Trenton (Ontario) store was relocated on the lakefront.

Vanier City store, near Ottawa, was one of 13 on-site expansion projects completed during the year.

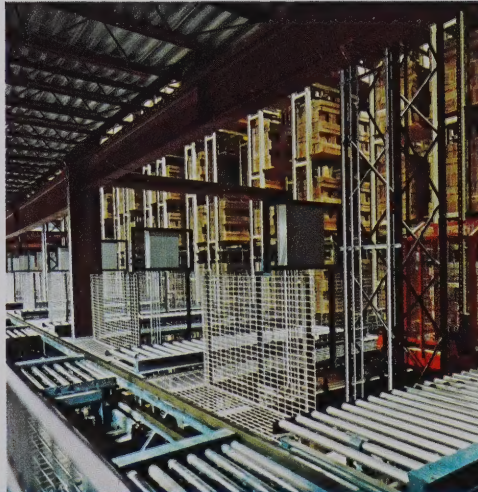




New directions



Direct, on-line computer terminal in receiving area.



Computer-controlled conveyor system.



Stock "picking machine."

Mississauga Centre's hi-rise storage and retrieval system re-oriens Canadian Tire's

WITH THE OPENING of our Mississauga Distribution Centre in 1973, Canadian Tire added 11 million cubic feet of distribution capacity to the 18 million represented by our Sheppard Avenue facility. The Mississauga building's automated, high-rise storage and retrieval system for pallet-load units has, in practice, reshaped our thinking in terms of usable space—from square to cubic footage.

Whereas our Sheppard Avenue Distribution Centre encompasses 18 million cubic feet over a base of 1 million square feet, Mississauga's 11 million cubic feet represent only 240,000 square feet of floor area—or 61 percent of the former facility's total cube capacity compared to only 24 percent of the floor area. Where operating efficiency is concerned, an automated high-rise storage and retrieval system is even more impressive—equalling the distribution capacity of conventionally-racked warehouses three to four times as large.

In standard warehouses, 8-foot access aisles are generally required to service 8 feet of merchandise of any given height. Computer-controlled storage-retrieval machines, moving along the full 630-foot length of Mississauga Centre's 78-foot high racking, serve the equivalent merchandise through 4½-foot aisles—only 6 inches wider than the pallet loads they handle—to reduce non-productive corridor space by 43 percent overall.

A single operator, stationed at a computer console, is in complete control of up to 26,500 pallets of reserve stock in the high-bay area (see photo on page 1). Eight automated, rail-riding lifts transport the pallet-loaded stock to and from eight twin rows of steel racking that tower the equivalent of eight storeys in height. An adjoining "low-bay" wing, with a floor

area of 147,000 square feet, provides facilities for receiving merchandise, filling dealers' orders, shipping and administrative functions. Pushbutton-operated, remote-control Towveyors—of the type in use at Sheppard Avenue—and manually-operated stacker cranes complete the in-coming and out-going cycle.

All merchandise entering the system is recorded by the computer as to product number, quantity and numerical storage location. A mini-computer controls the subsequent movement of stock within the distribution complex and maintains an exact record of all transactions. A stock filler can replenish his inventory by activating a digital device which causes the computer to locate a pallet of the requested product and automatically deliver it to his filling location.

A separate computer system, at our 2180 Yonge Street Home Office, is connected to both distribution centres via telephone line and special terminals to provide Management Information Systems with a two-way, computerized feed of dealers' orders and receiving and shipping data.

SAVINGS IN SPACE and labour costs—a floor staff of 88 can process a total of 100 trailer loads in and out per two-shift day—are the most obvious advantages of our Mississauga Centre, the largest facility of its type in Canada and second largest in North America. Reductions in man-hour costs alone, when related to a conventional-type warehouse of equal distribution capacity, should enable Canadian Tire to amortize our incremental investment in the highly-automated facility within two years of the beginning of operations.

n distribution...



Conveyor system in the low-bay filling area.

concept of space

The ancillary benefits of the automated, cubic storage principle are as many as they are varied—a sharp reduction in merchandise damage through mishandling, a “first in, first out” stock-monitoring system to ensure rotation of merchandise, simplified invoicing and labeling procedures and a safer working environment. All operations are controlled by computerized and electrically-controlled machinery, providing a more uniform work flow.

The Mississauga Centre will essentially receive and ship merchandise destined for the dealer in complete carton lots, while the Sheppard Avenue facility will concentrate on split-package quantities and products which require special handling because of their physical characteristics.

Our continually increasing distribution capacity requirements, together with the complete utilization of land at the Sheppard Avenue location, resulted in the development of our second major distribution operation. The company's own building department was the prime contractor on the Mississauga project. The building was designed to permit the construction of additional modules with minimal interruption of on-going operations. By applying the cube storage concept, land use was dramatically reduced—only eight acres of the 90-acre site, near Toronto International Airport, are covered by the new distribution facility.

In conceiving the Mississauga Centre, our engineers “held a mirror” to Sheppard Avenue operations, building around the most outstanding features to achieve a new high in Canadian Tire—and Canadian—retail distribution facilities.

High-rise reserve storage area (at right).





the sign
of good value
in 283 Canadian communities



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